IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

LEADER TECHNOLOGIES, INC., a Delaware corporation,

Plaintiff and Counterdefendant,

v.

FACEBOOK, INC., a Delaware corporation,

Defendant and Counterclaimant.

Civil Action No. 1:08-cv-00862-JJF

PUBLIC VERSION

PUBLIC VERSION OF

DEFENDANT FACEBOOK INC.'S OPENING BRIEF IN SUPPORT OF ITS MOTION FOR LEAVE TO AMEND ITS RESPONSIVE PLEADING TO ADD A DEFENSE AND COUNTERCLAIM OF INEQUITABLE CONDUCT AND TO AMEND ITS FALSE MARKING COUNTERCLAIM (D.I. #305)

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I. STATEMENT OF NATURE AND STATE OF PROCEEDINGS

Plaintiff Leader Technologies, Inc. ("LTI") filed its Complaint against defendant Facebook, Inc. in this patent infringement action on November 19, 2008. Discovery opened on February 17, 2009. Written fact discovery between the parties closed on November 20, 2009, and discovery closes this month. A *Markman* hearing was held on January 20, 2010, and trial is set for June 28, 2010. (D.I. 30, *Rule 16 Scheduling Order.*)

II. SUMMARY OF ARGUMENT

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Facebook is therefore seeking immediate leave to amend its responsive pleading to add an affirmative defense of inequitable conduct and a counterclaim seeking a declaratory judgment of unenforceability of the '761 patent.

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Thus, Facebook is also seeking to amend its existing false marking counterclaim to include allegations based on the false marking of these other Leader products.

Allowing Facebook to add its inequitable conduct defense and counterclaim, and to amend its false marking claim, will not prejudice LTI. The discovery necessary to prove the inequitable conduct and false marking alleged in Facebook's proposed amendment was obtained through the depositions of LTI's witnesses that were recently concluded. The requirement that a defendant plead inequitable conduct with particularity required that Facebook obtain concrete facts and evidence to support its proposed inequitable conduct defense, which could not be obtained until the inventor depositions were completed. Good cause also exists to amend

[1] Mr. McKibben was also serving as LTI's Rule 30(b)(6) corporate designee.

Facebook's already-asserted false marking claim to add additional information that was only just obtained and verified during discovery. Facebook therefore respectfully submits this Motion for Leave to Amend Its Responsive Pleading to Add a Defense and Counterclaim of Inequitable Conduct and to Amend Its False Marking Counterclaim.

In accordance with Local Rule 15.1, the proposed amended responsive pleading is attached as Exhibit A, and a copy of the proposed amended responsive pleading showing changes from Facebook's Second Amended Answer (D.I. 190) is attached as Exhibit B. In accordance with Local Rule 7.1.1, an averment of Facebook's counsel that reasonable efforts, including multiple meet-and-confers, have been made to reach agreement with the opposing party on the matters set forth in this motion is contained in the Declaration of Jeffrey Norberg in Support of Defendant Facebook's Motion for Leave to Amend its Responsive Pleading to Add a Defense and Counterclaim of Inequitable Conduct and to Amend Its False Marking Counterclaim ("Norberg Decl.").

III. STATEMENT OF FACTS

A. Information Disclosed During Discovery Supporting Facebook's Inequitable Conduct Defense and Counterclaim

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On December 10, 2003, attorney Eric D. Jorgenson, on behalf of Michael McKibben and Jeffrey Lamb (collectively "the applicants") filed U.S. Patent Application No. 10/732,744 (the "'744 Application"), the application that later matured into the issued '761 patent. This application purports to claim priority to U.S. Provisional Application No. 60/432,255 (the "'255 application"), filed on December 11, 2002. Throughout this litigation, LTI has contended that the '761 patent is entitled to the benefits of the December 11, 2002 filing date. (*See* Norberg Decl. Exs. 1–3.)

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These prior art references were relevant and material to the patentability of the '761 patent because, had they been disclosed, they would have impacted the USPTO's

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determination of whether the claims of the '761 patent were patentable under 35 U.S.C. §§ 102 and/or 103. However, these material prior art references were not disclosed to the USPTO.

B. Information Disclosed During Depositions Supporting Facebook's Amendment to Its False Marking Counterclaim

Facebook propounded Interrogatory No. 18 on LTI on September 15, 2009, as follows:

> For each product and/or service that LTI has marked with U.S. Patent No. 7,139,761, describe, with particularity, the process employed for each such marking, including but not limited to an identification of the beginning and end date(s) of the marking of that product and a description of the analysis, if any, by which the decision to mark such product was reached.

(Norberg Decl. Ex. 18 at 4.)

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IV. ARGUMENT

The Federal Rules of Civil Procedure advocate a liberal amendment policy, providing that "leave [to amend a pleading] shall be freely given when justice so requires." Fed. R. Civ. P. 15(a)(2). The Third Circuit has "adopted a liberal policy favoring the amendment of pleadings to ensure that claims are decided on the merits rather than on technicalities." *Webexchange Inc. v. Dell Inc.*, No. 08-132, 2010 U.S. Dist. LEXIS 4526, at *5 (D. Del. Jan. 20, 2010) (Farnan, J.) (citing *Dole v. Arco Chem. Co.*, 921 F.2d 484, 487 (3d Cir. 1990)). The Supreme Court has articulated only four reasons for denying leave to amend: 1) the movant's undue delay, bad faith, or dilatory motive; 2) repeated failure to cure deficiencies by previous amendments; 3)

allowance of the amendment would impose undue prejudice on the opposing party; and 4) the futility of amendment. *Foman v. Davis*, 371 U.S. 178, 182 (1962). None of these grounds applies in this instance.

If, as here, a party moves to amend its pleading after the deadline set forth in a Rule 16 Scheduling Order, Rule 16 requires the moving party show "good cause" to modify the scheduling order and allow the amendment of the pleading. *See Webexchange*, 2010 U.S. Dist. LEXIS 4526, at *5-6 (citing *E. Minerals & Chems. Co. v. Mahan*, 225 F.3d 330, 340 (3d Cir. 2000)); *see also* Fed. R. Civ. P. 16(b). A moving party can show that good cause exists by demonstrating that it acted diligently in filing its motion for leave to amend. *See Webexchange*, 2010 U.S. Dist. LEXIS 4526, at *6.

Asserting a claim of inequitable conduct requires a more thorough investigation, and therefore more time and discovery, than does assertion of most other claims and defenses, and thus, a moving party's diligence must be viewed in light of the heightened pleading requirement for inequitable conduct. Inequitable conduct must be pled in accordance with Federal Rule of Civil Procedure 9(b), which requires that "[i]n all averments of fraud or mistake, the circumstances constituting fraud or mistake shall be stated with particularity." *See Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1326 (Fed. Cir. 2009). The Federal Circuit summed up this requirement as follows:

> [T]o plead the 'circumstances' of inequitable conduct with the requisite 'particularity' under Rule 9(a), the pleading must identify the specific who, what, when, where, and how of the material misrepresentation or omission committed before the PTO. Moreover, although 'knowledge' and 'intent' may be averred generally, a pleading of inequitable conduct under Rule 9(b) must include sufficient allegations of underlying facts from which a court may reasonably infer that a specific individual (1) knew of the withheld material information or of the falsity of the material misrepresentation, and (2) withheld or misrepresented this information with a specific intent to deceive the PTO.

Exergen, 575 F.3d at 1328-29.

Due to this heightened pleading requirement, courts in this District have repeatedly granted defendants' motions to add an inequitable conduct defense and/or counterclaim after the Rule 16 deadline has passed because confirmation of facts underlying the inequitable conduct

claim required significant discovery. *See, e.g.*, *Cordance Corp. v. Amazon.com, Inc.*, 255 F.R.D. 366, 372 (D. Del. 2009) ("[I]n light of the pleading with particularity requirement under Rule 9(b), it was appropriate for [Defendant] to confirm the factual allegations [of its inequitable conduct contentions] through discovery."); *Roquette Freres v. SPI Pharma, Inc.*, No. 06-540, 2009 U.S. Dist. LEXIS 43740, at *17 (D. Del. May 21, 2009) (same); *ICU Med., Inc. v. Rymed Techs., Inc.*, No. 07-468, 2009 U.S. Dist. LEXIS 117353, at *8 (D. Del. Dec. 16, 2009) (same); *Webexchange*, 2010 U.S. Dist. LEXIS 4526, at *7. This is precisely what occurred in this case.

A. Facebook Has Acted Diligently in Seeking This Amendment

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As discussed above, inequitable conduct must be pled with particularity, and thus only after substantial discovery—in particular, document requests and depositions of the inventors named on the patent—could Facebook determine that Mr. McKibben had engaged in inequitable conduct rendering the '761 patent unenforceable. *See, e.g.*, *Cordance*, 255 F.R.D. at 372. Here, Facebook could not have conducted the deposition of Mr. McKibben prior to the November 20, 2009 deadline for moving to amend pleadings, as depositions were not to occur until after the close of written discovery between the parties, also November 20, 2009.

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Just nine days after Mr. McKibben's deposition, on March 5, 2010, Facebook requested a meet-and-confer with LTI on the matter of amending its Answer to assert an inequitable conduct defense and counterclaim. LTI finally agreed to meet and confer with Facebook on March 10, and during this meet and confer refused to agree to Facebook's requested amendment. In

between Facebook's request for a meet-and-confer and the meet-and-confer itself, LTI belatedly produced ten thousand additional pages of documents

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Facebook then requested a meet-and-confer on its revised version of its proposed amended Answer, which took place on March 25, 2010. Only one month after establishing the facts underlying Facebook's inequitable conduct defense and counterclaim and just two weeks after LTI's production of thousands of relevant documents, Facebook is filing this motion for leave to amend its responsive pleading. Facebook has therefore promptly, diligently and in good faith pursued its defense and counterclaim of inequitable conduct and its amendment to its false marking counterclaim, and has shown good cause for filing an amended pleading after the deadline set by the Rule 16 scheduling order.

B. The Present Request to Amend Its Responsive Pleading Is Facebook's Second

Facebook's responsive pleading in this action is not otherwise deficient, and Facebook has only once previously requested an amendment to its pleadings.

C. Allowing Facebook to Amend Its Responsive Pleading Will Not Unduly Prejudice LTI

LTI would not suffer any undue prejudice or harm if the Court grants Facebook leave to assert an inequitable conduct defense and counterclaim and to amend its false marking counterclaim. To defend itself against such counterclaims and respond to such a defense, the only proof LTI would require is information already in LTI's possession: whether Mr McKibben withheld material information from the USPTO during the prosecution of the '744 application and whether LTI marks its products with the '761 patent number. *See Cordance*, 255 F.R.D. at 373 (finding that as "the availability of information regarding inequitable conduct is primarily

2. False Marking

Section 292(a) of 35 U.S.C. provides: "Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatentable article, the word 'patent' or any word or number importing that the same is patented for the purpose of deceiving the public . . . shall be fined not more than $500 for every such offense." To establish false marking, a plaintiff must show that the defendant (1) marked an unpatented article (2) with intent to deceive the public. *See Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1300 (Fed. Cir. 2009).

Facebook has already set forth facts to support its false marking counterclaim in its Second Amended Complaint and its Motion for Leave to Amend Its Responsive Pleading to Add a Counterclaim of False Marking. This amendment to add additional products to the list of falsely marked products would not render Facebook's false marking claim futile, but rather strengthens its claim.

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These facts set forth a prima facie case of false marking, as LTI has marked with a patent number products that it does not believe are covered by that patent.

Based on this information, Facebook has sufficient grounds to assert a counterclaim of false marking under the facts pled in both the Second Amended Complaint and the Third Amended Complaint.

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V. CONCLUSION

The liberal amendment standard of Rule 15(a) and Facebook's diligence in meeting the heightened Rule 9(b) pleading standard required to set forth a claim of inequitable conduct compel the conclusion that Facebook should be allowed to pursue a defense and counterclaim for inequitable conduct in this litigation. For these reasons, Facebook respectfully requests that the Court grant it leave to amend its responsive pleading to add a defense and counterclaim for inequitable conduct and to amend its false marking claim.

Dated: March 25, 2010

By: */s/* _____

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IN THE UNITED STATES COURT

FOR THE DISTRICT OF DELAWARE

LEADER TECHNOLOGIES, INC., a Delaware corporation, Plaintiff, v. FACEBOOK, INC., a Delaware corporation, Defendant.	**CIVIL ACTION** **No. 1:08-cv-00862-JJF** **JURY TRIAL DEMANDED** **FACEBOOK'S THIRD AMENDED ANSWER TO COMPLAINT FOR PATENT INFRINGEMENT, AFFIRMATIVE DEFENSES, AND COUNTERCLAIMS**

Defendant and Counterclaimant FACEBOOK, INC. ("Facebook"), by and through its undersigned counsel, hereby submits its Third Amended Answer and Counterclaims to the Complaint for Patent Infringement filed by plaintiff LEADER TECHNOLOGIES, INC. ("LTI"):

ANSWER

The Parties

1. Facebook lacks sufficient information to admit or deny the allegations set forth in paragraph 1 of the Complaint and therefore denies them.

2. Facebook admits that it is a company organized and existing under the laws of the State of Delaware. Facebook denies that its corporate headquarters are located at 165 University Avenue, Palo Alto, California 94301. Facebook's principal place of business is located at 1601 S. California Avenue, Palo Alto, CA 94304-1111.

Jurisdiction and Venue

3. Admitted.

4. Facebook admits that venue is authorized in this judicial district under 28 U.S.C.

§§ 1391(b) and 1400(b), and that this Court has personal jurisdiction over Facebook. Except as expressly admitted herein, Facebook denies the remaining allegations of paragraph 4 of the Complaint.

The Asserted Patent

5. Facebook admits that United States Patent No. 7,139,761 (the '761 patent") is entitled "Dynamic Association of Electronically Stored Information with Iterative Workflow Changes." Facebook admits that a copy of the '761 patent was attached to the Complaint as Exhibit A. Facebook denies that the '761 patent was duly and legally issued. Except as expressly admitted herein, Facebook lacks sufficient information to admit or deny the remaining allegations of paragraph 5 of the Complaint and therefore denies them.

6. Facebook lacks sufficient information to admit or deny the allegations of paragraph 6 of the Complaint and therefore denies them.

Alleged Infringement

7. Facebook admits that it operates a web site that can be found on the World Wide Web at http://www.facebook.com. Except as expressly admitted herein, Facebook denies the remaining allegations of paragraph 7 of the Complaint.

First Cause of Action

(Alleged Infringement of the '761 Patent)

8. Facebook incorporates by reference all preceding paragraphs of this Answer as if fully set forth herein.

9. Denied.

10. Denied.

11. Denied.

12. Denied.

Prayer For Relief

13. Facebook incorporates by reference all preceding paragraphs of this Answer as if fully set forth herein. Facebook denies that LTI is entitled to any relief sought in LTI's Prayer for Relief against Facebook, or otherwise.

AFFIRMATIVE DEFENSES

First Affirmative Defense: Non-Infringement

14. Facebook is not infringing and has not infringed any claim of the '761 patent, either literally or under the doctrine of equivalents.

Second Affirmative Defense: Invalidity

15. On information and belief, each claim of the '761 patent is invalid for failure to meet one or more of the conditions of patentability specified in 35 U.S.C. §§ 101-103 and/or 112.

Third Affirmative Defense: Failure to State a Claim

16. The Complaint fails to state a claim upon which relief can be granted.

Fourth Affirmative Defense: Laches

17. The Complaint and each of the allegations therein do not entitle plaintiff to relief on the grounds that, on information and belief, LTI's claims are barred by the doctrine of laches due to LTI's knowledge of Facebook's allegedly infringing actions, LTI's inexcusable failure to pursue its infringement claims diligently and timely from the time it became aware it had claims against Facebook, and by virtue of the fact that Facebook has been both economically and materially prejudiced and/or injured from LTI's inexcusable lack of diligence, including (but not limited to) through the loss of records of third parties pertaining to the prior art, and the

unreliability of the memories of witnesses who otherwise possess knowledge of the technology at issue.

Fifth Affirmative Defense: No Injunctive Relief

18. Plaintiff's demand to enjoin Facebook is barred, as plaintiff has suffered neither harm nor irreparable harm from Facebook's actions.

Sixth Affirmative Defense: Prosecution History Estoppel

19. On information and belief, prosecution history estoppel and/or prosecution disclaimer precludes any finding of infringement.

Seventh Affirmative Defense: Marking of the '761 Patent

20. Plaintiff's pre-lawsuit claims for damages are barred, in whole or in part, for failure to comply with 35 U.S.C. § 287.

Eighth Affirmative Defense: Unenforceability of the '761 Patent (Inequitable Conduct)

21. On December 10, 2003, attorney Eric D. Jorgenson, on behalf of Michael McKibben and Jeffrey Lamb (collectively "the applicants") filed U.S. Patent Application No. 10/732,744 (the "'744 Application"), the application that later matured into the issued '761 patent. This application purports to claim priority to U.S. Provisional Application No. 60/432,255, filed on December 11, 2002, but the '761 patent is not entitled to the filing date of the earlier provisional application because the provisional application does not support or disclose the subject matter of the issued claims.

22. In connection with the '744 Application, the applicants submitted a Declaration and Power of Attorney stating under penalty of perjury that they had "reviewed and understood the contents" of the patent specification, and that that each "acknowledge[d] the duty to disclose all information which is material to patentability as defined in 37 CFR 1.56."

23. As explained in particularity below, in violation of their duty of disclosure under 37 C.F.R. § 1.56 and with intent to deceive, the applicants failed to disclose information that was material to the patentability of the claimed invention.

Failure to Disclose 2001-2002 Offers of Sale

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COUNTERCLAIMS

Defendant and counterclaimant FACEBOOK, INC. ("Facebook"), by and through their undersigned counsel, hereby allege the following counterclaims against plaintiff and counterclaim-defendant LEADER TECHNOLOGIES, INC. ("LTI"):

The Parties

1. Facebook is a corporation organized and existing under the laws of the State of Delaware, having its principal place of business at 1601 S. California Avenue, Palo Alto, CA 94304-1111.

2. Facebook is informed and believes and on that basis alleges that counterclaim-defendant LTI is a corporation organized and existing under the laws of the State of Delaware having its principal place of business at 921 Eastwind Drive, Suite 118, Westerville, Ohio 43081.

Jurisdiction and Venue

3. This is a civil action seeking relief under two federal statutes: the Declaratory Judgment Act, 28 U.S.C.A. § 2201 *et seq.*, regarding allegations of patent infringement arising under the patent laws of the United States; and the federal patent false marking statute, 35 U.S.C. § 292. This Court has subject matter jurisdiction over these matters pursuant to 28 U.S.C. §§ 1331, 1338, 2201 and 2202.

4. The Court has personal jurisdiction and venue over LTI because LTI consented to

personal jurisdiction and venue by filing the Complaint in this action.

Actual Controversy

5. LTI claims to be the assignee of the complete interest in United States Patent No. 7,139,761 (the "'761 patent"), entitled "Dynamic Association of Electronically Stored Information with Iterative Workflow Changes." LTI has alleged that Facebook has infringed and is infringing the '761 patent, a contention Facebook denies.

6. An actual controversy, within the meaning of 28 U.S.C. §§ 2201 and 2202, exists between Facebook and LTI. Facebook seeks a declaration that it does not infringe the '761 patent, that the '761 patent is invalid, and that LTI's claims under the '761 patent are barred.

Count I
(Declaratory Judgment of Non-Infringement of U.S. Patent No. 7,139,761)

7. Facebook incorporates by reference all preceding paragraphs of this Counterclaim as if fully set forth herein.

8. Facebook does not infringe and has not infringed any claim of the '761 either literally or under the doctrine of equivalents and therefore is not liable for infringement thereof. Furthermore, LTI's claims under the '761 Patent are barred for the reasons set forth in Facebook's Affirmative Defenses set forth above.

Count II
(Declaratory Judgment of Invalidity and/or Unenforceability of U.S. Patent No. 7,139,761)

9. Facebook incorporates by reference all preceding paragraphs of this Counterclaim as if fully set forth herein.

10. The '761 patent and each claim thereof are invalid and/or unenforceable for the reasons set forth in Facebook's Affirmative Defenses set forth above.

Count III
(False Marking under 35 U.S.C. § 292)

11. Facebook incorporates by reference all preceding paragraphs of this Counterclaim as if fully set forth herein.

12. LTI has designed and sold, among other things, several products and/or services including LeaderPhone, LeaderAlert, LeaderMeeting, LeaderDialog, and Leader2Leader (the latter also referred to as "Leader2Leader® powered by Digital Leaderboard®").

13. On information and belief, following issuance of the '761 patent in November 2006, LTI marked all of its products, as well as advertising, marketing and promotional materials for those products, with the '761 patent. Moreover, LTI marked each of its public pages accessible from its Internet web site (http://www.leader.com) with the number for the '761 patent, effectively contending that all of its products and even its web page practiced the alleged invention claimed in the '761 patent.

14. LTI has claimed that its Leader2Leader product practices the alleged invention claimed in the '761 patent, but has admitted that the other products that it marked (e.g., LeaderPhone, LeaderAlert) do not and have not practiced the alleged invention claimed in the '761 patent. On information and belief, LTI has been aware that its products did not practice the invention claimed in the '761 patent.

15. On information and belief, LTI has falsely affixed the '761 patent number to its products and its advertising, marketing and promotional materials for its products, for the purpose of deceiving the public and suppressing competition.

16. Pursuant to 35 U.S.C. § 292(b), Facebook is entitled to sue for the penalty for such false marking and receive one-half of such penalty.

Count IV
(Declaratory Judgment of Unenforceability of U.S. Patent No. 7,139,761)
(Inequitable Conduct)

17. Facebook incorporates by reference all preceding paragraphs of this Counterclaim as if fully set forth herein.

18. Title 37 of the Code of Federal Regulations ("CFR") § 1.56 and the Manual for Patent Examination ("MPEP") § 2000.01, *et seq.* impose a duty of candor and good faith on each individual associated with the filing and prosecution of a patent application before the USPTO, requiring that he or she disclose to the USPTO all information that is material to the patentability of the application under examination. Breach of this duty of candor and good faith with an intent to deceive the USPTO constitutes inequitable conduct so as to render the affected patent unenforceable.

19. On December 10, 2003, attorney Eric D. Jorgenson, on behalf of Michael McKibben and Jeffrey Lamb (collectively "the applicants") filed U.S. Patent Application No. 10/732,744 (the "'744 Application"), the application that later matured into the issued '761 patent. This application purports to claim priority to U.S. Provisional Application No. 60/432,255, filed on December 11, 2002, but the '761 patent is not entitled to the filing date of the earlier provisional application because the provisional application does not support or disclose the subject matter of the issued claims.

20. In connection with the '744 Application, the applicants submitted a Declaration and Power of Attorney stating under penalty of perjury that they had "reviewed and understood the contents" of the patent specification, and that that each "acknowledge[d] the duty to disclose all information which is material to patentability as defined in 37 CFR 1.56."

21. As explained in particularity below, in violation of their duty of disclosure under

37 C.F.R. § 1.56 and with intent to deceive, the applicants failed to disclose information that was material to the patentability of the claimed invention.

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Prayer For Relief

WHEREFORE, Facebook prays that this Court enter judgment:

A. In favor of Facebook, and against LTI, thereby dismissing LTI's Complaint in its entirely, with prejudice, with LTI taking nothing by way of its claims;

B. Declaring and adjudging that Facebook does not infringe the '761 patent;

C. Declaring and adjudging that the '761 patent is invalid and/or unenforceable;

D. Adjudging that LTI has falsely marked the Leader2Leader product in violation of 35 U.S.C. § 292;

E. Ordering plaintiff to pay all costs incurred by Facebook in responding to this action, including Facebook's reasonable attorneys' fees pursuant to 35 U.S.C. § 285;

F. Ordering plaintiff to pay the statutory penalty of up to $500 for every offense of false marking;

G. Awarding one-half of the penalty assessed for violation of 35 U.S.C. § 292 to Facebook; and

H. Awarding Facebook all other relief the Court deems just and proper.

JURY DEMAND

Facebook demands a trial by jury as to all issues so triable.

Dated: March 23, 2010

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